



April 26, 2018

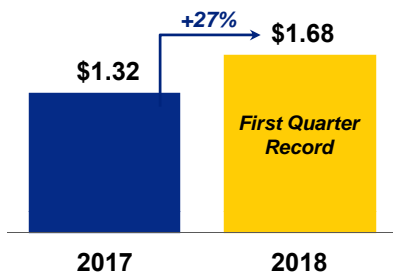
## First Quarter 2018 Earnings Release

**Lance Fritz**  
Chairman, President & CEO

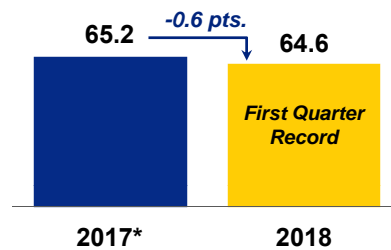
## First Quarter 2018 Results



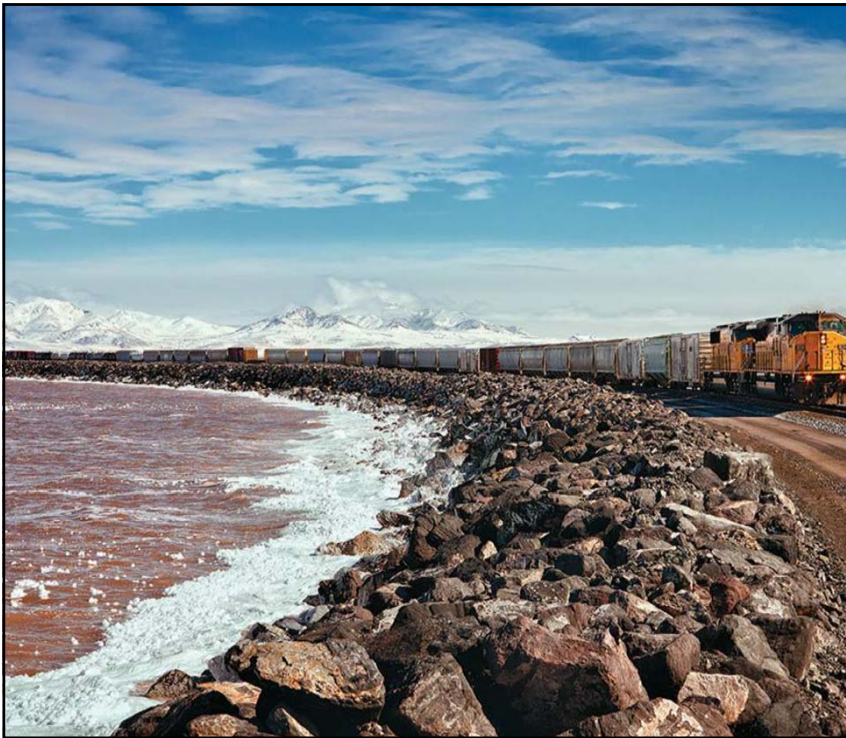
### Earnings Per Share First Quarter



### Operating Ratio First Quarter



\* Certain prior period amounts have been adjusted for the retrospective adoption of Accounting Standard Update 2017-07 related to the presentation of the components of net periodic pension and other postretirement benefit costs. See Union Pacific website under Investors for the adoption impact.



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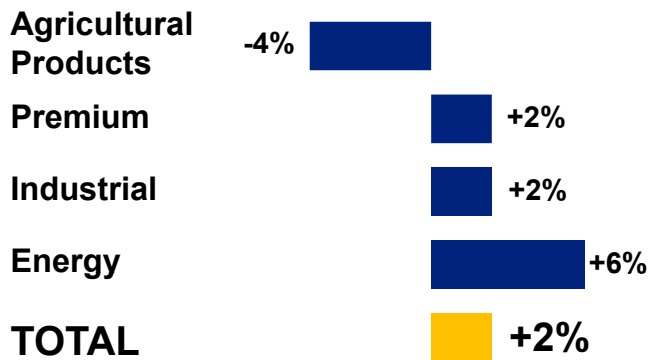
# First Quarter 2018 Marketing & Sales Review

**Beth Whited**  
Executive VP & Chief Marketing Officer

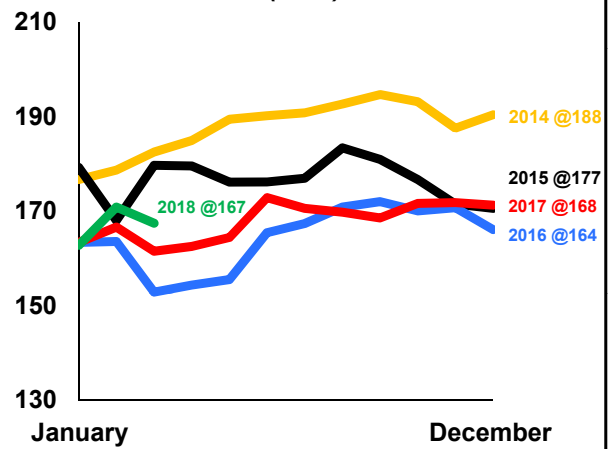
## 1st Quarter 2018 Recap



### Volume Growth

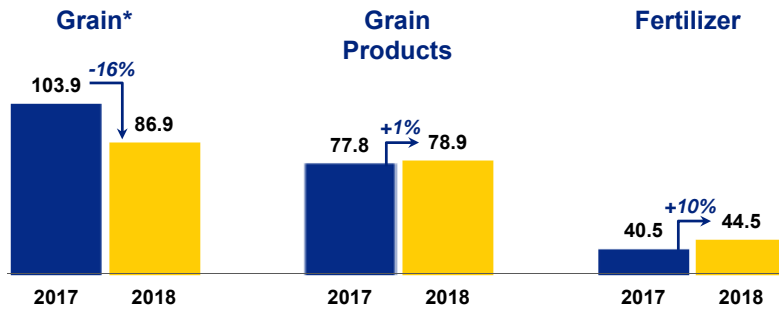


### 7-Day Monthly Carloadings (000s)

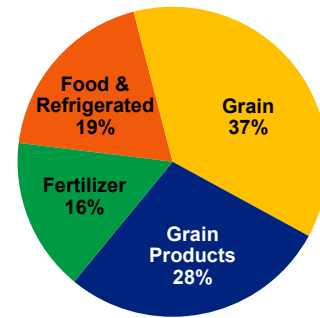


# Agricultural Products

Revenue \$1,098M (Flat) Volume 279K (-4%) ARC \$3,942 (+5%)



## Volume Mix



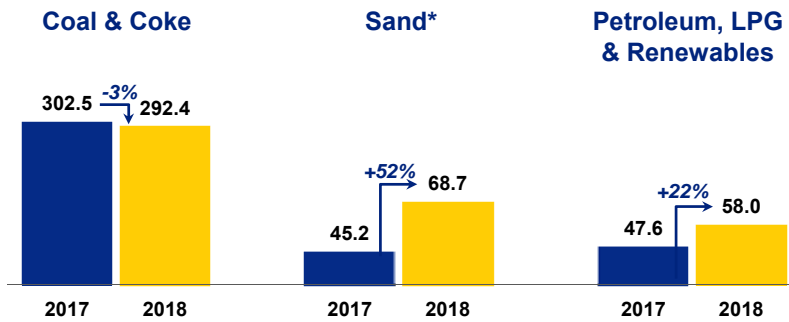
### Quarterly Drivers

- Reduced Grain Exports
- Ethanol Export Strength
- Strong Demand for Fertilizer Exports

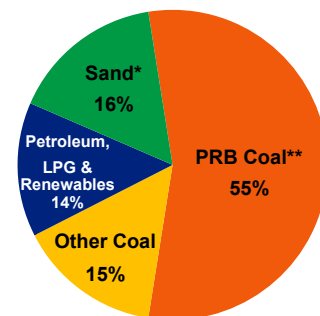
Volume in thousands of carloads  
\*Excludes equipment shipments

# Energy

Revenue \$1,173M (+15%) Volume 419K (+6%) ARC \$2,799 (+8%)



## Volume Mix



### Quarterly Drivers

- Increased Shale Drilling Activity
- Strong Demand for Petroleum Products
- Continued Coal Headwinds

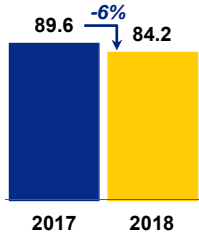
Volume in thousands of carloads  
\* Sand includes Barites  
\*\* PRB includes SPRB and NPRB

# Industrial

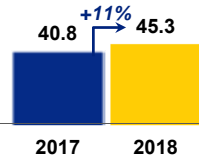
Revenue \$1,340M (+6%) Volume 411K (+2%) ARC \$3,262 (+4%)



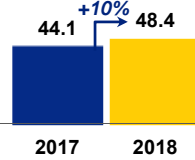
## Construction



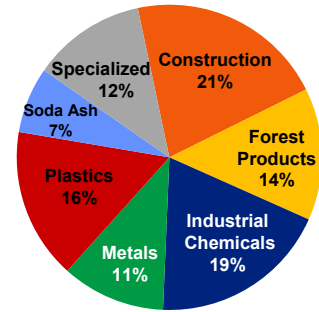
## Metals



## Specialized Markets



## Volume Mix



### Quarterly Drivers

- Lower Rock Shipments
- Strong Demand for OCTG Pipe
- Increased Military and Waste Volume

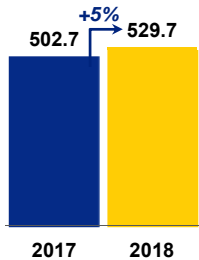
Volume in thousands of carloads

# Premium

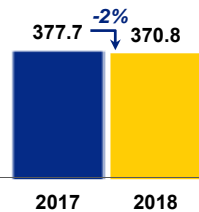
Revenue \$1,511M (+7%) Volume 1,016K (+2%) ARC \$1,487 (+5%)



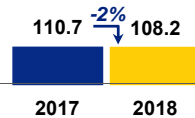
## Domestic\*



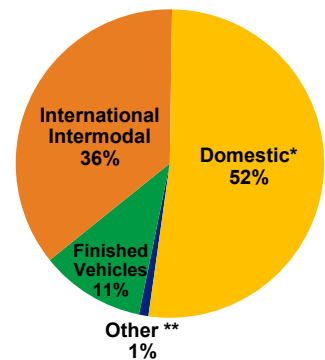
## International Intermodal



## Finished Vehicles



## Volume Mix



### Quarterly Drivers

- Tight Truck Market
- Auto Parts Strength
- Softer Vehicle Sales

Volume in thousands of carloads

\* Domestic includes domestic intermodal and auto parts moved in intermodal containers  
 \*\* Includes non-intermodal auto parts

# 2018 Volume Outlook



**Agricultural Products**  
+ Ethanol Exports  
+ Food and Refrigerated  
? Grain



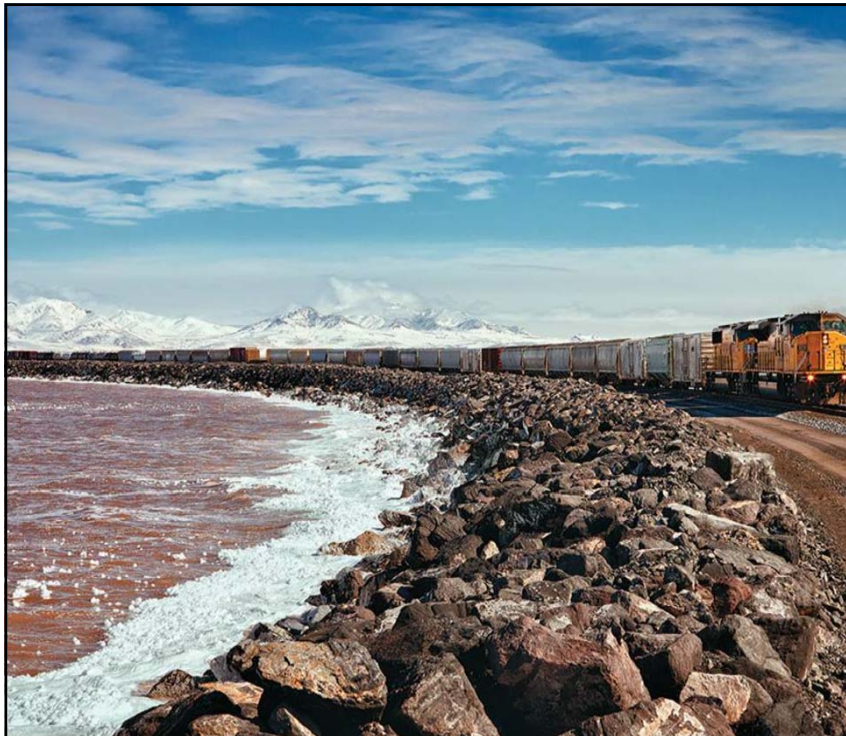
**Industrial**  
+ Plastics  
+ Industrial Production



**Energy**  
+ Petroleum Products  
? Frac Sand  
- Coal Headwinds



**Premium**  
+ Over the Road Conversions  
+ New International Business  
- Automotive Sales



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## First Quarter 2018 Operations Review

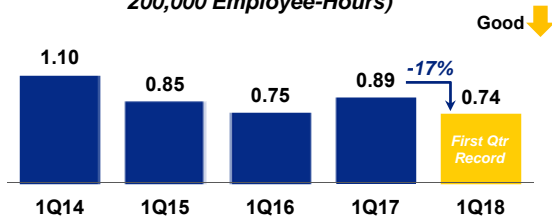
**Cameron Scott**  
Executive VP & Chief Operating  
Officer

# Safety



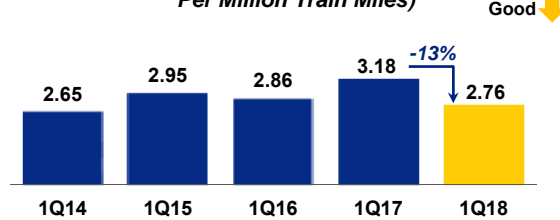
## Employee

(Reportable Personal Injury Incidents Per 200,000 Employee-Hours)



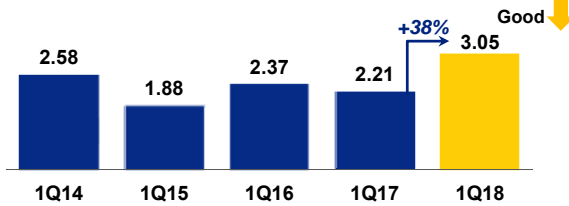
## Rail Equipment

(Reportable Derailment Incidents Per Million Train Miles)



## Public

(Crossing Accidents Per Million Train Miles)



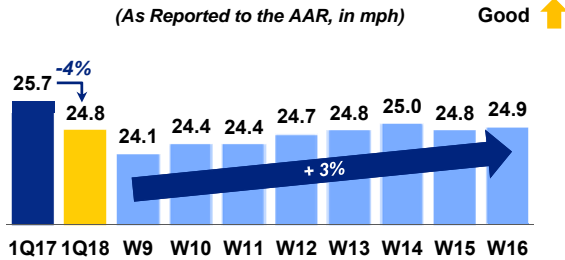
- Goal of Zero Incidents
- Solid Employee & Rail Equipment Improvement

# Network Performance



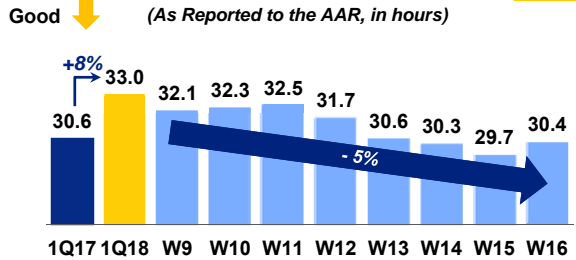
## Velocity

(As Reported to the AAR, in mph)



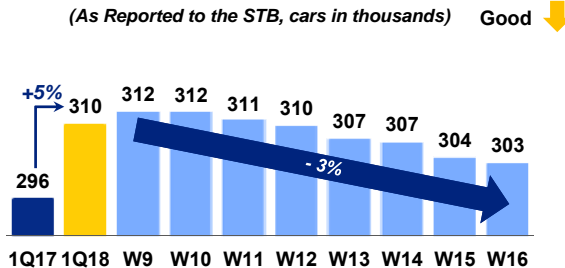
## Terminal Dwell

(As Reported to the AAR, in hours)



## Freight Car Inventory

(As Reported to the STB, cars in thousands)



- Record Southern Region Manifest Volumes
- Performance Metrics Improving Sequentially

## Service Recovery Initiatives



- **Aggressively Managing Freight Car Inventory**
  - Focused on Southern Region
  - Identifying & Prioritizing Cars with Excessive Dwell
- **Adjusting the Transportation Plan**
  - Shifting Volume to Balance Car Flows
  - PNW & Northern California Adjustments
- **Improving Efficiency at Key Terminals**
  - Increased Local Train Frequency
  - Added Yard Jobs to Support Efforts



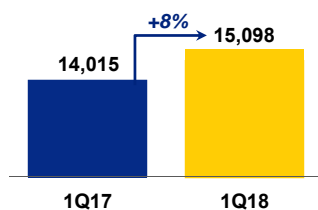
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## Volume & Performance Drive Resources



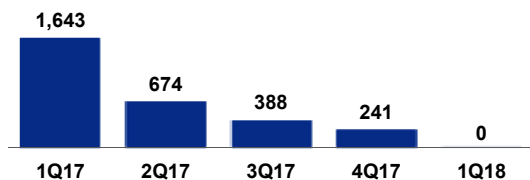
### TE&Y

(Full-Time Equivalent)



### TE&Y Furloughs

(Employees at Quarter-End)



- **Reactivated ~650 HHP Locomotives since Mid-2017**
  - Leasing Additional Locomotives
- **Increased TE&Y Training**
  - Volume
  - Expected Attrition
  - Current Service Challenges
- **Tight Labor Markets in Some Areas**

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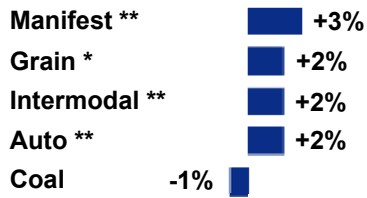
# Productivity



## Train Size Performance

(vs 1Q17)

→  
Good



- Continued Gains in Train Size
- Productivity in Other Areas
  - Engineering
  - Mechanical

\* Best-Ever Quarter    \*\*First-Quarter Record

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# Operating Outlook



- Network Improvements
- Maintain Focus on Productivity & Efficiency
- Continue PTC Progression



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## First Quarter 2018 Financial Review

**Rob Knight**  
Executive VP & Chief Financial  
Officer

### First Quarter Income Statement \$ in Millions (except EPS)

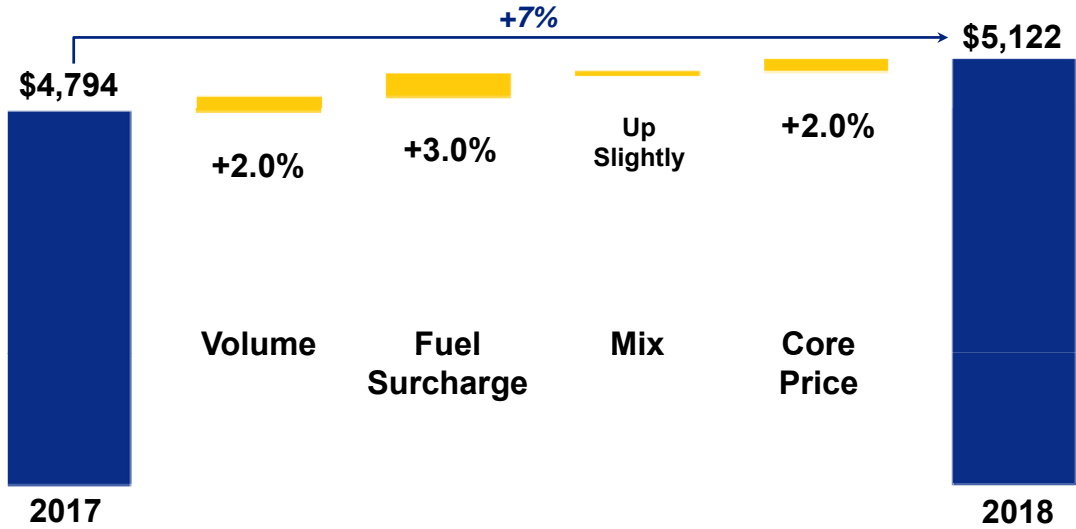


	<u>2018</u>	<u>2017</u>	<u>%</u>
Operating Revenues	\$5,475	\$5,132	7
Operating Expenses*	3,536	3,344	6
Operating Income	<u>1,939</u>	<u>1,788</u>	8
Other Income / (Expense)*	(42)	72	U
Interest Expense	(186)	(172)	8
Income Taxes	<u>(401)</u>	<u>(616)</u>	(35)
<b>Net Income</b>	<b><u>\$1,310</u></b>	<b><u>\$1,072</u></b>	<b>22</b>
Weighted Average Diluted Shares	779.6	814.8	(4)
<b>Diluted EPS</b>	<b><u>\$1.68</u></b>	<b><u>\$1.32</u></b>	<b>27</b>

\* Certain prior period amounts have been adjusted for the retrospective adoption of Accounting Standard Update 2017-07 related to the presentation of the components of net periodic pension and other postretirement benefit costs. See Union Pacific website under Investors for the adoption impact.

## Freight Revenue

First Quarter (\$ In Millions)



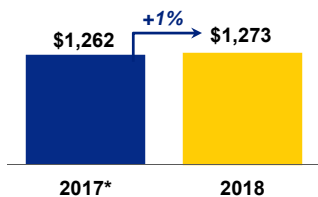
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## First Quarter Operating Expenses

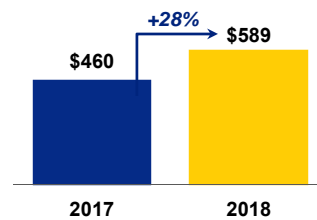
\$ In Millions



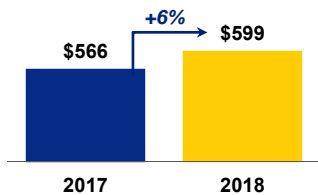
### Compensation & Benefits



### Fuel



### Purchased Services & Materials



- Network Operational Challenges & Increased TE&Y Training
- Higher Diesel Fuel Prices
- Volume-Related Costs & Higher Lease Return Repair Expenses

\* Certain prior period amounts have been adjusted for the retrospective adoption of Accounting Standard Update 2017-07 related to the presentation of the components of net periodic pension and other postretirement benefit costs. See Union Pacific website under Investors for the adoption impact.

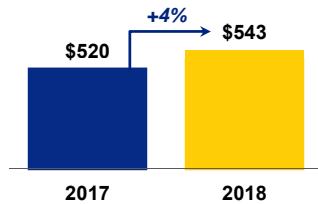
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## First Quarter Operating Expenses (cont)

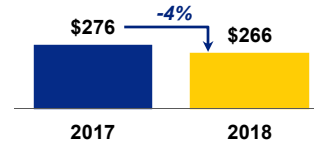
\$ In Millions



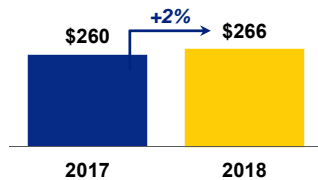
### Depreciation



### Equipment & Other Rents



### Other Expenses



- Higher Depreciable Asset Base
- Lower Locomotive & Freight Car Lease Expense

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## Productivity Update



**First Quarter Results:**  
~\$35 Million of Savings

- Operational Challenges Resulted in ~\$40 Million Headwind
- Full Year Productivity Less Than Original \$300 - \$350 Goal

### Initiatives & 1Q18 Results (\$ in millions)

**(\$20)** Network and Train Ops *Slower velocity, TE&Y recrew, Overtime, and Higher fuel consumption rate*

**(\$5)** Equipment (Loco and Car) *Active loco fleet, Car repair & rents, offset by lease savings*

**\$60** Other Ops, Support, Sourcing, Mgmt & Admins *Support, Safety, Engineering, Supply, Joint Facilities*

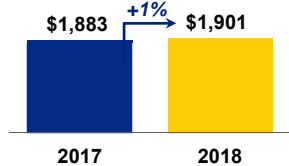
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## Cash Flow & Debt

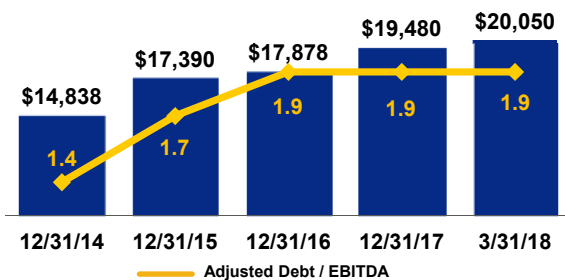
\$ In Millions



### Cash From Ops



### Adjusted Debt\*



- Higher Net Income
- Increased Adj. Debt \$570 Million since Year-End 2017
- Re-evaluating Optimal Capital Structure

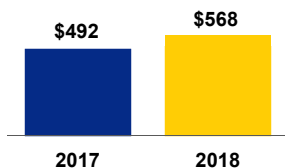
\* See Union Pacific website under Investors for a reconciliation to GAAP 23

## Delivering Value to Shareholders

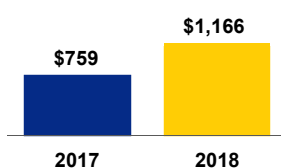
\$ In Millions



### Dividends

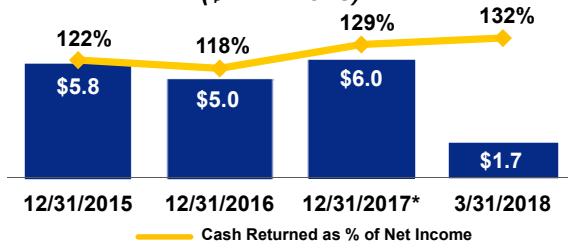


### Share Repurchases



### Cash Returned to Shareholders

(\$ In Billions)



- Repurchased 9.3 Million Shares Totaling ~\$1.2 Billion in 1Q 2018
- Increased 53% from 2017
- 2018 Cash Returns to Shareholders: 132% of Net Income

\* Adjusted to exclude the 2017 impact of Corporate Tax Reform 24

## 2018 Outlook



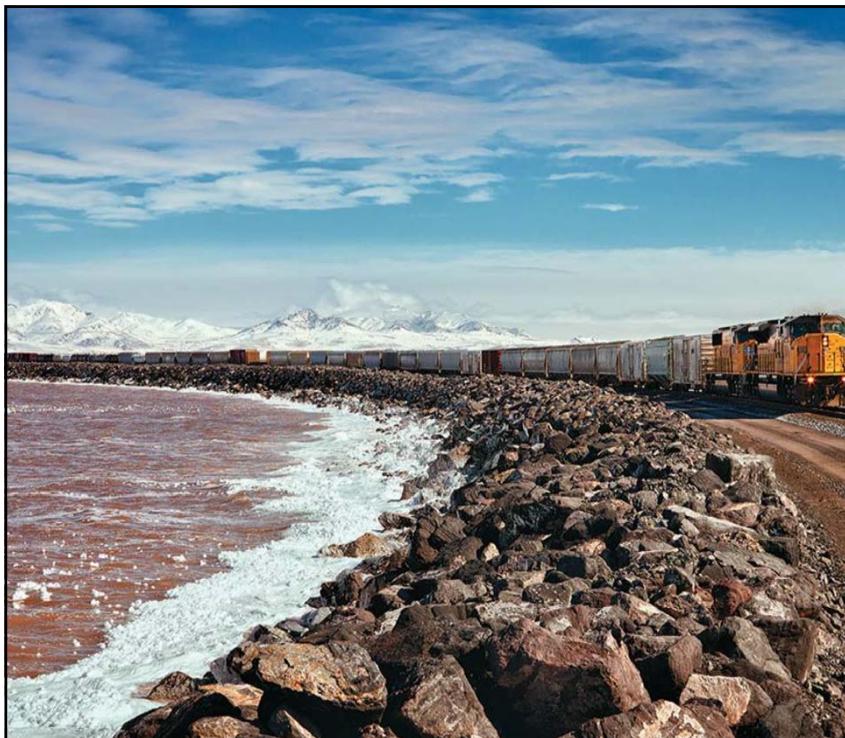
### Full Year

- Low Single Digit Volume Growth
- Price Above Inflation
- Goal is an Improved Operating Ratio

*Continued Focus on G55+0*



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## First Quarter 2018 Earnings Release

**Lance Fritz**  
Chairman, President & CEO

## Looking Ahead



- **Solid First Quarter Results**
- **Continue Momentum with Operating Improvements**
- **Well Positioned for Growth**



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## Cautionary Information



This presentation and related materials contain statements about the Company's future that are not statements of historical fact, including specifically the statements regarding the Company's expectations with respect to economic conditions; its ability to generate financial returns, improve resource productivity and use innovation to enhance customer experience; implementing corporate strategies; and providing excellent service to its customers and returns to its shareholders. These statements are, or will be, forward-looking statements as defined by the Securities Act of 1933 and the Securities Exchange Act of 1934. Forward-looking statements also generally include, without limitation, information or statements regarding: projections, predictions, expectations, estimates or forecasts as to the Company's and its subsidiaries' business, financial, and operational results, and future economic performance; and management's beliefs, expectations, goals, and objectives and other similar expressions concerning matters that are not historical facts.

Forward-looking statements should not be read as a guarantee of future performance or results, and will not necessarily be accurate indications of the times that, or by which, such performance or results will be achieved. Forward-looking information, including expectations regarding operational and financial improvements and the Company's future performance or results are subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in the statement. Important factors, including risk factors, could affect the Company's and its subsidiaries' future results and could cause those results or other outcomes to differ materially from those expressed or implied in the forward-looking statements. Information regarding risk factors and other cautionary information are available in the Company's Annual Report on Form 10-K for 2017, which was filed with the SEC on February 9, 2018. The Company updates information regarding risk factors if circumstances require such updates in its periodic reports on Form 10-Q and its subsequent Annual Reports on Form 10-K (or such other reports that may be filed with the SEC).

Forward-looking statements speak only as of, and are based only upon information available on, the date the statements were made. The Company assumes no obligation to update forward-looking information to reflect actual results, changes in assumptions or changes in other factors affecting forward-looking information. If the Company does update one or more forward-looking statements, no inference should be drawn that the Company will make additional updates with respect thereto or with respect to other forward-looking statements. References to our website are provided for convenience and, therefore, information on or available through the website is not, and should not be deemed to be, incorporated by reference herein.

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# First Quarter 2018 Earnings Release

Question & Answer  
Session